



Equity Research | FBN Holdings Plc

ARM Research

[research@armsecurities.com.ng](mailto:research@armsecurities.com.ng)

+234 1 270 1652

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Initial View

12 months ended 31<sup>st</sup> December, 2014

**Recommendation: STRONG BUY (₦18.70)**

- First Bank of Nigeria Holdings Plc (FBNH) released audited results for 12 months ended December 2014 wherein gross earnings rose 22% YoY to ₦473.8 billion (9M 14: +12% YoY). PBT rose 2% YoY to ₦92.8billion (9M 14: +5% YoY) while tax credits in Q4 resulted in FY PAT rising a wider 17% YoY to ₦82.8 billion (9M 14: -5% YoY).
- FBNH declared a 10 kobo dividend per share which implies a payout ratio of 4% (FY 13: 58%) and translates to a 1% dividend yield at today's closing price. In addition, FBNH announced a 1 for 10 scrip issue.

### ***Higher rates and FX gains boost top-line***

- Q4 14 gross earnings rose 23% QoQ to ₦147 billion underpinned by robust expansion across both revenue segments with interest income rising 18% QoQ to ₦106.9billion whilst non-funded revenues jumped 40% QoQ to ₦40.3billion. Disaggregating the parts, interest income gains were largely driven by income from investment securities (+57%) and interbank placements, which jumped four-fold QoQ, whilst income from loans and advances contracted 6% QoQ. The gains on the former two reflects the elevated yield environment over Q4 14 (Bills: +276bps, Bonds: +318bps) and accounted for the 140bps QoQ rise in blended asset yields to 11.3%.

### Income Statement Data

	2014 – 12M'm	2013 – 12M'm	%chg
Gross Earnings	473,797	389,152	22%
PBT	92,884	91,337	2%
Tax	(10,045)	(20,706)	-51%
PAT	82,839	70,631	17%

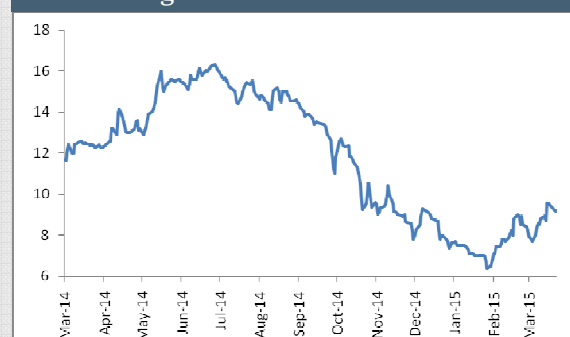
### Balance Sheet Data

	2014-Dec 'm	2013-Dec 'm	%chg
Cash	698,104	594,234	17%
Loans	2,178,980	1,769,130	23%
Deposits	3,050,853	2,929,081	4%
Fixed Asset	88,208	81,299	8%
Net Assets	522,890	471,777	11%

### Stock Data

Price	₦9.18
52 week range	₦ 6.35 - ₦ 16.52
Market Cap. (N'm)	299,562.53
1-month Avg. Vol	52,073,924
Curr. PE	3.6x
Bloomberg Ticker	FBNH: NL
Reuters Ticker	FBNH.LG

### FBN Holdings Plc- Share Price Trend



### Analyst(s)

Adeolu Omotola

[adeolu.omotola@arm.com.ng](mailto:adeolu.omotola@arm.com.ng)

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- On NIR, gains were primarily driven by a surge in FX income (+162% QoQ to ₦44billion), in line with the pattern across our coverage banks thus far, on account of the sizable FX volatility in Q4 14.

***Tax write-back offsets impact of higher provisioning and poor cost control***

- Interest expense rose 34% QoQ to ₦39.4 billion with breakdowns provided by FBNH revealing higher borrowing expenses and, to a lesser extent, higher costs on customer deposits as the key underpins. The latter reflects fall-out of the monetary tightening in November (MPR: +100bps to 13%, CRR: +500bps to 20%) whilst FBNH links the former to the full year impact of the \$450 million Eurobond issued in July 2014. Consequently, annualized WACF rose 30bps QoQ to 3.5%.
- A 68% QoQ contraction in personnel expenses to ₦8.5 billion (vs. 9M 14 avg: ₦27.3 billion), which possibly suggests over accrual in prior quarters, contrasts sharply with outcome for other operating expense which more than doubled QoQ to ₦64.1 billion. For the latter, in addition to regulatory induced pressures from higher AMCON and NDIC charges, FBNH links the upswing in other opex to FY consolidation of newly acquired entities (ICB Senegal, Oasis Insurance and Kakawa Discount House) which underpinned a 31% QoQ rise in overall Q4 14 opex to ₦76 billion. Consequently, CIR rose 7pps QoQ to 71%.
- Extending the rising pattern over 2014, impairments accelerated 88% QoQ to ₦12.6 billion driving cost of risk 40bps QoQ to 1.3%. In the management commentary accompanying the result, FBNH links the higher provisioning to deterioration in small to medium sized exposures.
- Reflecting the cumulative impact of the higher impairments and softening cost containment, PBT declined 25% QoQ to ₦19.1 billion whilst a tax write back of ₦8 billion swung PAT 48% higher QoQ to ₦27.2 billion. At 20%, FY 14 PBT margins are 3pps lower YoY and QoQ, whilst the strength of the Q4 write backs pared PAT margin contraction to 17% (-1ppt YoY, flat QoQ).

***Macro concerns to push FVE lower nonetheless BUY rating to persist***

- Going forward, as with our coverage banks, the impact of weaker FX and subdued crude oil price on the domestic macro environment are central to outlook. Over 2015, the cumulative impact of the two variables on asset quality should result in upward
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revisions to our cost of risk assumptions for FBNH. Furthermore, FY 14 Basel II CAR of 16.7% provides limited buffer to regulatory threshold (16% for SIFI banks) which together with pressured domestic climate suggests more muted loan growth and, by extension, interest income over 2015. Though USDNGN volatility could sustain upswing in NIR, the gains to FX income should moderate post commencement of order-based FX market in February even as moderation in COT charges tempers fee income growth. FBNH trades at a current P/E of 3.6x and P/B of 0.6x which are both at discounts to peer averages. The stock has declined 22% since our last update with last trading price of ₦9.18 at a sizable discount to our last published FVE (₦18.7) which retains sizable scope for our BUY rating to persist, post-revisions to our model.

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### ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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